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Administration for Children and Families

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PROGRAM INSTRUCTION

TO: State and Territorial Agencies Administering or Supervising the Administration of Title IV -B and Title IV -E of the Social Security Act

SUBJECT: SACWIS Policy Guidance - Cost Allocation Policies for Operational SACWIS Systems

LEGAL AND RELATED REFERENCES: Section 474 of the Social Security Act (the Act); 45 CFR §1355; 45 CFR §1356; 45 CFR §95 Subparts E, F & G; 45 CFR §92, OMB Circular A-87; ASMB C-10 (HHS Implementation Guide for OMB Circular A-87); Office of Grants and Acquisition Management Action Transmittal OGAM AT 98-2, Issued 9/30/98; ACF Action Transmittal .ACF-OISM-001, Issued 2-24-95; and ACF Action Transmittal ACF-OSS-05, Issued 8-21-98

PURPOSE: This announcement is a comprehensive overview of existing cost allocation requirements related to SACWIS operational costs. It explains those policies and reiterates the need to allocate SACWIS operational costs to the appropriate benefiting programs once any portion of the system or supporting network becomes operational. We are issuing this program instruction (PI) to draw attention to SACWIS cost allocation issues and to provide clarifying guidance to States.

The need to issue this guidance became apparent as States completed development of their SACWIS projects and began claiming Federal financial participation for the costs to operate these systems. Despite previous Federal guidance, some States mistakenly used cost allocation methodologies approved for the developmental phase of their projects rather than a cost allocation methodology for operational costs approved by the Division of Cost Allocation

within the Department of Health and Human Services (DHHS or Department). This overview explains the difference between the two methodologies, the basis for the difference, and provides guidance on how to develop an operational cost allocation methodology for a SACWIS.

CONTENT: The PI is divided into four sections.

- Section I contains general background information.
- Section II outlines guidance for proposing or amending an operational cost allocation plan for a SACWIS
- Section III identifies some considerations that must be addressed as a State develops its cost allocation plan for the operation of a SACWIS.
- Section IV defines relevant terms. Please note that the definitions provided in this section apply to the entire document.

EFFECTIVE DATE: February 24, 1995, the issuance date of the first SACWIS Action Transmittal, ACF-OISM-001.¹

Section I - BACKGROUND INFORMATION

The Office of Management and Budget (OMB) Circular A-87 and related guidance (ASMB C-10²) published by the Department require that the costs of an activity (e.g., the cost to operate an automated system) be allocated to all benefiting programs based on the relative benefits derived. This means that any program that benefits from a particular activity must share in the costs associated with that activity. Where multiple programs benefit, a single program may not normally be designated as the sole benefiting program (or primary program). An exception to this rule is described in Section 2-12 of the ASMB C-10 guidance. That exception permits deviation from the A-87 requirements only when the head of a Federal agency determines that the enabling legislation requires that a program absorb costs that would normally be allocable to other programs. In the absence of such an exception, costs must be allocated to all benefiting programs.

The SACWIS legislation (section 13713 of the Omnibus Budget Reconciliation Act of 1993 - Pub. L. 103-66) and the implementing regulations at 45 CFR §1355 and §1356 created a limited exception that satisfied the criteria in ASMB C-10. Both of these citations provide that all expenditures of a State necessary to plan, design, develop, install and operate a SACWIS, as defined by the Secretary, can be treated as necessary for the proper and efficient administration of the IV -B and IV -E State plans. Specifically, the legislation indicates that SACWIS **costs related to the support of State-funded foster care and adoption** may be funded through the title IV -E program. The SACWIS regulatory and statutory language eliminated the need for States to allocate applicable SACWIS costs based on the ratio of the title IV -E to non-title IV -E caseload. The provision

allowing this cost allocation methodology is delineated at 45 CFR §1355.57(a) and applies only to the components of a SACWIS as described in §1355.53.

Costs must, however, be allocated to programs in addition to title IV-E when the system supports programs other than those carried out under the State's approved plans for titles IV-B and IV-E, or the system supports functions outside of the SACWIS defined functional requirements. The regulations at 45 CFR §1355.57(b) specify that the cost allocation methodology must be in accordance with the regulations at 45 CFR §95.631 (benefiting program concept) to the extent that a State's SACWIS includes functions, processing, information collection and management, equipment or services that are not directly related to the administration of the programs carried out under title IV-B or IV-E. Please see the SACWIS Action Transmittal AT-ACF-OISM-001, issued February 24, 1995, for additional guidance on the system requirements. There may also be activities covered under a State's title IV-B and/or title IV-E plans that fall outside of the SACWIS domain, and therefore cannot be charged to title IV-E using the SACWIS cost allocation methodology. This is discussed further in the "Considerations" Section of this PI (Section III).

During the developmental phase of a SACWIS project, ACF has encouraged States to design and build comprehensive child welfare management information systems that can be used to support a broad range of child welfare-related services and programs. Toward that goal, ACF supported cost allocation methodologies during development that assigned common costs for child welfare-related functions to the title IV-E program, as long as these functional modules were being developed primarily for allowable SACWIS activities under the title IV-B and IV-E programs. This approach to allocating costs, generally referred to as a primary program methodology, has been approved by the Division of State Systems (DSS) of ACF for costs incurred by States during the developmental phase of all SACWIS projects.

While DSS has the authority to approve a cost allocation methodology that conforms to the primary program methodology during the developmental phase of an information system project, this methodology may not be used for ongoing administrative expenses necessary to maintain and operate the system. Once a State begins to incur operational expenses, those costs must be allocated in accordance with a cost allocation plan (CAP) approved by the DHHS Division of Cost Allocation. It is important to note that the approval by DSS of a SACWIS-related developmental cost allocation methodology is limited to the developmental activities covered in the approved Advance Planning Document (APD) during the time period specified in that document.

While ACF supported State requests to use a primary program methodology to fund common system costs related to the design, development, and implementation of a SACWIS, the operational phase of a SACWIS engenders direct benefits to specific programs based upon usage of the system.

Consequently, upon the implementation of any portion of the system (including the installation of a network or the use of desktop workstations), the State's operational CAP must include all of the programs, program functions and funding sources benefiting from the operational use of the system or its infrastructure. While foster care and adoption-related SACWIS costs, as well as certain title IV - B costs, may continue to be funded through the title IV -E program during the operational phase of a SACWIS, an appropriate share of both direct and common system-related expenses must be allocated to all other benefiting programs. For example, while the cost to build a common search function may have been entirely funded by title IV-E during development, once the system (or this portion of the system) is operational, all programs that use the search function must share the costs to operate it. These programs might include juvenile justice, child care, adult protective services, emergency assistance, direct client services, and/or other State and Federal programs.³

Section II - INSTRUCTIONS

States must evaluate their cost allocation plans for the operation of their SACWIS to determine if the applicable plans comply with the guidance in this Program Instruction. If it is determined that a State's CAP(s) is not in compliance or if the State has yet to submit a CAP addressing SACWIS operational costs, it must file an appropriate CAP or CAP amendment for the quarters where the non-conforming methodology was used.

The requirements for submitting or amending a CAP are delineated in departmental regulations at 45 CFR §95 Subpart E. If an amendment is required for current or prior quarters, the State must follow these regulations. The CAP or amendment must be submitted to the Division of Cost Allocation in the appropriate DHHS Regional Office. Section 95.509 of 45 CFR describes the expectations for States amending their CAPs. In summary, that section directs the State to promptly amend the CAP and submit the amended plan to the Director, DCA, if a significant change occurs. The implementation of any portion of a SACWIS falls within the category of "significant change" and therefore requires that a State amend its operational CAP. States are reminded to begin the process of amending their CAP when any portion of their system is nearing the point of generating operational expenditures. ACF recommends that this process be initiated no later than three to four months prior to the first component of the system becoming operational.

Generally, the effective date of a CAP amendment submitted to DCA for approval is the first day of the calendar quarter following ***the date of the event that required the amendment***. If a State has not filed such an amendment in a timely fashion, or it has been disapproved by DCA, the State must submit an adjustment to its previously approved claims for SACWIS operating costs. Once a CAP has been approved by DCA, the State must adjust, when applicable, any prior claims of title IV-E funds in accordance with the provisions and effective

date of an approved new or amended CAP. States are also reminded that pursuant to regulations at 45 CFR 95.519, if a State fails to submit an amended cost allocation plan as required by 45 CFR 95.509, the improperly claimed costs will be disallowed.

Please Note: ACF requests that States positively affirm in future APDs that they have evaluated their SACWIS operational cost allocation methodology and that at least one of the following statements is true: a CAP amendment, consistent with this guidance, has been approved by DCA; a CAP amendment, consistent with this guidance, has been submitted to DCA; or that the original cost allocation methodology complies with this guidance.

Section III - CONSIDERATIONS

As a State develops its proposed cost allocation methodology for the costs associated with its **partially** or **fully** operational SACWIS, it will need to consider several factors. Some of these factors are tied to the difference between the cost allocation methodology that can be approved by DSS during the development phase of a SACWIS and the "benefiting program approach" that must be used during the operational phase. Other factors are based on program, financial, and system rules. The **considerations** discussed below are provided here as examples of some of the many factors a State must consider when it creates its SACWIS cost allocation methodology for operational expenditures.

Shared Versus Unique Cost Pools

Functionality used to support services or requirements for any non-title IV-B or IV-E programs (e.g., emergency assistance services that may be provided to title IV-E families under the TANF program) must be allocated to the applicable funding source. In developing a cost allocation methodology for an operational SACWIS, the State will need to determine what programs benefit from the different system components. The cost of a component that exclusively benefits one funding source should be direct charged to that program. The cost of a component that benefits multiple funding sources must be allocated to the different programs. If justified, the State may weight the benefit derived by the different programs that share the use of a common component.

Foster Care and Adoption Assistance

In accordance with section 474(c) of the Act, SACWIS activities that support the administrative functions identified at 45 CFR §1356.60(c)(2), including those performed on behalf of children who are not title IV-E eligible, may be funded

through the title IV -E program during the operational phase of the system. Therefore, to the extent that the system functionality does not exceed those requirements, the share of the costs that would otherwise have been allocated to non-title IV -E foster care and adoption programs may be allocated to title IV -E. The regulations at 45 CFR §1356.60(c)(3) specifically prohibit the use of title IV -E dollars for social services. Therefore, any SACWIS component that supports administrative activities associated with the delivery of services (for example, documenting the delivery of a service to a child in foster care) may not be allocated to title IV -E. Such operational expenses must be allocated to title IV -B and any other benefiting program.

Child Welfare Services

A SACWIS can provide systems support for a variety of administrative activities associated with the provision of child welfare services to children who are in their own homes. States typically fund the administrative cost of providing such services (e.g., child protective investigations, in-home services case management, documentation related to the provision of services, etc.) through several Federal and State programs. The following guidance clarifies the appropriate basis for the allocation of SACWIS operational costs associated with these activities.

Child Welfare Services - Title IV-B

SACWIS operations that support certain activities performed on behalf of children who have not been removed from their homes, are funded under title IV -B, and fall under SACWIS functional requirements (as defined in the SACWIS Action Transmittal ACF-OISM-001, issued February 24, 1995), may be charged to title IV -E. In accordance with the regulations at 45 CFR §1356.60(c)(3) and §1355.53(b)(4), a critical distinction exists between those system operations that may be charged to title IV -E and those that must be charged to title IV -B and any other benefiting programs.

As stated above, the regulations at 45 CFR §1356.60(c)(3) specifically prohibit the use of title IV -E funds for services. Therefore, any systems costs associated with the direct delivery of services to children who are in their own homes (for example, documenting the delivery of a service) may not be charged to title IV -E. Rather, such system costs must be allocated to title IV -B and any other benefiting programs.

Alternatively, the regulations at 45 CFR §1355.53(b)(4) permit States to allocate system operations that **facilitate the delivery** of title IV -B in-home services to title IV -E. Examples of such functions include system operations that support referral to services and the development of a case plan. Although such costs are

associated with children who are in their own homes, these costs may be allocated to title IV-E because they support activities that are consistent with those enumerated at 45 CFR §1356.60(c)(2).

The following consideration must be met before allocating any SACWIS operational costs for in-home title IV-B child welfare services to title IV-E. The State must consider the sources of funding used to reimburse all of the State's in-home title IV-B administrative activities. Many States use titles XIX and XX, TANF (Temporary Assistance for Needy Families) and/or other funding sources in addition to title IV-B to support the delivery of in-home child welfare services. To the extent that a State allocates its in-home child welfare services to programs other than title IV-B the SACWIS operational costs must also be allocated to those benefiting programs. Therefore, only the portion of the costs funded under title IV-B may be reallocated to title IV-E.

Child Welfare Services - Title XX, TANF, State & Other Funding Sources

Any other SACWIS operational costs supporting the provision or delivery of in-home child welfare services should be funded by the benefiting programs (e.g., State funds, TANF, title XX). The allocation methodology for this component of the total cost of the operational system may be based upon the percentages of the underlying (non-SACWIS) administrative costs claimed by the State for the benefiting programs or another appropriate methodology that measures the relative benefits received by each program that funds a portion of the child welfare services in the State.

AFCARS Elements

Any SACWIS operational costs to support the State's AFCARS reporting requirements in accordance with Federal regulations at 45 CFR §1355.40 and §1356.60(d) are reimbursable through title IV-E.

External Systems

If a State elects to satisfy the SACWIS requirements related to eligibility and/or financial management using an approved interface with an existing State system, the SACWIS cost allocation policies may not be applied to the system costs of the external system.⁴

Medicaid

A number of States allocate a portion of their child welfare administrative costs to the title XIX (Medicaid) program. The State should contact the Health Care Finance Administration for guidance on claiming these system-related costs in an operational SACWIS.

Shared Network

All benefiting programs must share in the allocation of costs associated with the system infrastructure and other network costs.

Legacy Systems

The SACWIS operational cost allocation methodology may not be used for system costs related to legacy systems that may continue to be in operation pending the complete implementation of the SACWIS. These systems must continue to consider non-title IV -E eligible children, title IV -B, and other benefiting programs in the cost allocation methodology.

Please see Appendix A of this document for a simplified example of how a state could develop a cost allocation methodology for an operational SACWIS.

Section IV - DEFINITIONS

In this section of the PI, relevant terms are defined and discussed. These definitions, which are delineated in Part 95 of the regulations at 45 CFR, are applicable throughout the document.

- **Development** - means the definition of system requirements, detailing of system and program specifications, programming and testing. This includes the use of hardware to the extent necessary for the developmental phase (e.g., the equipment needed to support the project staff). New functionality added to an existing SACWIS project must be justified in, and approved through, the State's APD. Software development costs do not include the cost of routine maintenance and operations, or minor enhancements and changes that do not significantly increase the functionality of the system. States are reminded that Federal financial participation for system costs are limited to the amount established in the approved Advance Planning Document(s).
- **Operation** - means the automated processing of data used in the administration of the State plan related to the applicable program. Operation includes the use of supplies, software, hardware, and personnel directly associated with the functioning of the mechanized information

system. For illustrative purposes, operational costs include routine maintenance, minor enhancements and other changes that do not significantly increase or modify the functionality of the system. These include, but are not limited to, routine activities such as: updating existing commercial software used in the system; table changes; the addition of new reports, edits, alerts or data elements; screen reformatting; or minor changes in the system. Depending on the applicable threshold⁵ of the project, operational automated data processing activities are subject to the same Advance Planning Document and "prior approval" requirements as developmental costs. States are reminded that they are responsible for applying the appropriate cost allocation methodology to their different cost centers, and if a mistake is made, they must submit an adjustment to their claim for FFP.

Operation - Concurrent Operational and Developmental Cost Pools

Under a SACWIS project, it is possible that a State will have simultaneous operational and developmental costs. For example, if a State has installed local office equipment prior to the completion of the application, the State would charge the costs associated with both the network and maintaining the office workstations to an operational cost pool in accordance with the cost allocation methodology approved by the Department's Division of Cost Allocation. This would occur at the same time that application development activities were being charged to the developmental cost pool. Another example of when a State would have concurrent operational and developmental cost pools would be if the application was being implemented on a phased basis (phased either geographically or functionally). In this example, the State would need to track the operational costs of that portion of the system that was implemented separate from the continuing development activities. The State would use the appropriate cost allocation methodology for the different cost pools.

Operation - Correcting Errors or Deficiencies

Generally, work activity to correct errors or deficiencies to comply with the original approved specifications could be viewed as operational activity when performed on a module that is operational. Conversely, work activity that changes the functions of software and hardware beyond their original approved specifications could be viewed as developmental activity even though the module is operational. The use of hardware to support such work activities would necessarily be defined as operational or developmental in concert with the activity performed.

However, this general categorization fails to address egregious situations where errors or deficiencies significantly impact the development effort and/or the use of the system. In determining whether these costs should

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be classified as development or operations, ACF will consider different factors such as the cause of the deficiencies, and the degree or significance of the errors (as measured by cost, scope and schedule implications).

Regardless of how these costs are categorized, the State will need to submit an appropriate APD if the impact of the error exceeds the regulatory thresholds (cost, schedule, or scope) associated with the project (please see 45 CFR Part 95 Subpart F). The State will be expected to address the entire scope of the required work in either an annual or an as needed APD Update. Operational and developmental costs should be uniquely identified in a State's APD.

- **Enhancement** - means modifications which change the functions of software and hardware beyond their original purposes, not just to correct errors or deficiencies which may have been present in the software or hardware, or to improve the operational performance of the software or hardware.
- **Implementation** - means design, development, and installation and does not include operation.
- **Design** - means a combination of narrative and diagrams describing the structure of a new or more efficient automatic data processing system.
- **Installation** - means the integrated testing of programs and subsystems, system conversion, and turnover to operational status.
- **Project** - means an automated systems effort undertaken by the State to improve the administration and/or operation of one or more human service programs.
- **Cost Allocation Plan (CAP)** - means the description of the procedures that the State agency will use in identifying, measuring, and allocating all State agency costs incurred in support of programs administered or supervised by the State agency. Cost Allocation Plans are approved by the Department's Division of Cost Allocation. DSS approves cost allocation methodologies used to distribute costs during the development phase of a project.
- **State Plan** - means a comprehensive written commitment by the State agency to administer or supervise the administration of any of the applicable Federal public assistance programs in accordance with all Federal requirements.

INQUIRIES: ACF Regional Offices

_____/s - 2/16/2001/_____

James A. Harrell

Acting Commissioner

Administration on Children, Youth, and Families

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Appendices:[Appendix A](#) - Example of a SACWIS Cost Allocation Methodology[Appendix B](#) - List of ACF Regional Offices and Phone Numbers**Footnotes:**

1 The ACF Action Transmittal, ACF-OISM-001, was issued on February 24, 1995. That document reminded States that operational SACWIS costs needed to be claimed in accordance with the methodology approved by the Division of Cost Allocation. That document also offered to provide additional technical assistance to States trying to develop a methodology for allocating operational SACWIS costs.

2 ASMB C-10 - Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government. OMB Circular A-87 provides principles and standards for determining costs applicable to Federal grants and contracts. ASMB C-10 is intended to assist State governments in applying OMB Circular A-87 rules to DHHS programs. The procedures in ASMB C-10 are applicable to grants and contracts awarded by all Federal agencies and have been developed in coordination with OMB. Please see the following web page for additional information on this guidance. - <http://www.hhs.gov/grantsnet/state/index.htm>

3 This list is provided as an example of some of the programs that may need to be included in a State's operational CAP.

4 Please see ACF Action Transmittals ACF-OISM-001 (issued 2-24-1995) and ACF-OISM-05 (issued 8-21-1998) for additional guidance on the limits and use of external systems to satisfy SACWIS functional requirements. The guidance that is provided in those documents discusses specific SACWIS components that may be satisfied outside of the statewide SACWIS.

5 The applicable thresholds related to the acquisition of Automated Data Processing equipment and services are identified at 45 CFR Part 95 Subpart F.

Please send all comments and questions on this subject to [CB Comments](#).

Updated on April 18, 2001 by webmaster@acf.dhhs.gov